

**Project Return, Incorporated**

Improper Use of Agency Credit Cards  
for Personal Charges

**July 1999**

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July 6, 1999

The Honorable Don Sundquist, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and  
The Honorable Donal Campbell, Commissioner  
Department of Correction  
Rachel Jackson Building  
320 Sixth Avenue North  
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is a special report on our review of alleged misuse of agency credit cards by three former staff of Project Return, Inc. (a private, nonprofit organization receiving a \$200,000 annual direct appropriation from the General Assembly). The agency provides employment and rehabilitative assistance to ex-offenders and their families.

On June 29, 1998, Ms. Linda Thomas, Project Return's current executive director, told Division of State Audit staff that when she began employment with the agency in January 1998, she discovered that Ms. Jean Allbritton, the former executive director; Ms. Christine Hamilton, the former bookkeeper; and Mr. Walter Phillips, a former senior job development counselor, had used agency credit cards (Visa and American Express) for personal expenses. These charges were made during the period March 1992 through May 1998. Ms. Thomas stated that the agency's board of directors had apparently been aware of and approved of the spending practice expecting the three individuals to reimburse the agency for the personal charges. She stated that the three individuals had made nominal monthly payments for their respective personal charges through payroll deductions but still owed an outstanding aggregate balance of approximately \$80,000.

Our review determined that Project Return had paid personal credit card charges in the following amounts: Ms. Allbritton, \$37,996.21; Ms. Hamilton, \$30,049.16; and Mr. Phillips \$18,010.26. The grand total was \$86,055.63. We determined that the following payroll deductions were made to offset personal credit card charges: Ms. Allbritton, \$8,600; Ms. Hamilton, \$5,894.37 (including three personal checks to the agency totaling \$350); and Mr. Phillips, \$5,760.

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Page Two

Thus, we determined the following outstanding balances of personal credit card charges: Ms. Allbritton, \$29,396.21; Ms. Hamilton, \$24,154.79; and Mr. Phillips, \$12,250.26. The outstanding balance of personal credit card charges for all three individuals totaled \$65,801.26. These balances did not reflect any company imposed late fees or interest charges. We have imputed no additional interest on these balances.

Ms. Allbritton stated that she considered the practice of using the agency credit card for personal expenses as having been approved by the board of directors because the practice began prior to her employment with the agency and was discussed by the board in several board meetings she attended. She said that during these meetings, the board debated the necessity of the practice but always postponed making a final decision. Ms. Allbritton stated that at no time was she told by board members or staff that the practice was prohibited.

Board meeting minutes dated October 4, 1994, confirm that the board of directors were aware of staff's personal use of agency credit cards. According to board meeting minutes, the propriety of allowing staff to use the agency credit cards for personal expenses was discussed on at least three different occasions from October 1994 through June 1996 without resolution. The practice continued until the cards were canceled (the American Express card in July 1997 and the Visa card in May 1998).

Ms. Allbritton, Ms. Hamilton, and Mr. Phillips acknowledged using agency credit cards for personal expenses and owing the agency for the charges. All three individuals expressed their desire to repay their respective outstanding balances by setting up a payment plan with the agency to retire the debt.

According to Ms. Thomas and reflected in board meeting minutes, on October 20, 1998, the board chairperson and co-secretaries were removed as board officers. Following this decision, the board members active during the time agency staff used credit cards for personal use resigned or were removed from the board because their term limits had expired. Ms. Thomas further stated that the agency no longer utilizes credit cards.

The use of agency credit cards for personal expenses is an obvious abuse of agency funds. This practice perpetuated by the key agency staff was not subject to any internal controls. Relying on agency staff who used the credit cards to determine which charges were personal and which were incurred on behalf of the agency provided no safeguards against misuse. This determination was not reviewed by anyone else at the agency and not always supported with receipts for agency purchases. In allowing this practice, the board of directors failed to ensure state-appropriated funds were used for intended purposes.

On May 5, 1999, we submitted our findings to the Office of the District Attorney General, Twentieth Judicial District (Nashville); and the Office of the State Attorney General.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/trs

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

**Special Report**  
**Project Return, Incorporated**  
**Improper Use of Agency Credit Cards for Personal Charges**  
July 1999

## **REVIEW OBJECTIVES**

The objectives of the review were to determine the nature and extent of any impropriety relating to the use of Project Return's credit cards for personal expenses; to examine the agency's internal controls over the use of agency credit cards and the recording of personal credit card charges; to report our findings to the Tennessee General Assembly for its consideration regarding future appropriations to the agency; and to report our findings to the Office of the State Attorney General and the appropriate Office of the District Attorney General.

## **RESULTS OF THE REVIEW**

According to Project Return literature, the agency is a private, nonprofit organization providing employment and rehabilitative assistance to ex-offenders and their families by referring them to employment sources, facilitating their access to basic education and vocational training, and educating the public on criminal justice issues. The agency receives a \$200,000 annual direct appropriation from the General Assembly.

Ms. Jean Allbritton, the former executive director, Ms. Christine Hamilton, the former bookkeeper, and Mr. Walter Phillips, a former senior job development counselor, acknowledged using agency credit cards for personal expenses and owing the agency for the charges. These charges were made during the period March 1992 through May 1998.

Our review determined that Project Return had paid personal credit card charges in the following amounts: Ms. Allbritton, \$37,996.21; Ms. Hamilton, \$30,049.16; and Mr. Phillips \$18,010.26. The grand total was \$86,055.63. We determined that the following payroll deductions were made to offset personal credit card charges: Ms. Allbritton, \$8,600; Ms. Hamilton, \$5,894.37 (including three personal checks to the agency totaling \$350); and Mr. Phillips, \$5,760.

Thus, we determined the following outstanding balances of personal credit card charges: Ms. Allbritton, \$29,396.21; Ms. Hamilton, \$24,154.79; and Mr. Phillips, \$12,250.26. The outstanding balance of personal credit card charges for all three individuals totaled \$65,801.26.

These balances did not reflect any company imposed late fees or interest charges. We have imputed no additional interest on these balances.

Ms. Allbritton stated that she considered the practice of using the agency credit card for personal expenses as having been approved by the board of directors because the practice began prior to her employment with the agency and was discussed by the board in several board meetings she attended. She said that during these meetings, the board debated the necessity of the practice but always postponed making a final decision. Ms. Allbritton stated that at no time was she told by board members or staff that the practice was prohibited.

Board meeting minutes dated October 4, 1994, confirm that the board of directors were aware of staff's personal use of agency credit cards. According to board meeting minutes, the propriety of allowing staff to use the agency credit card for personal expenses was discussed on at least three different occasions from October 1994 through June 1996 without resolution. The practice continued until the cards were canceled (the American Express card in July 1997 and the Visa card in May 1998).

The use of agency credit cards for personal expenses is an obvious abuse of agency funds. This practice perpetuated by the key agency staff was not subject to any internal controls. Relying on agency staff who used the credit cards to determine which charges were personal and which were incurred on behalf of the agency provided no safeguards against misuse. This determination was not reviewed by anyone else at the agency and was not always supported with receipts for agency purchases. In allowing this practice, the board of directors failed to ensure state-appropriated funds were used for intended purposes.

According to Ms. Linda Thomas, the current executive director, and reflected in board meeting minutes, on October 20, 1998, the board chairperson and co-secretaries were removed as board officers. Following this decision, the board members active during the time agency staff used credit cards for personal use resigned or were removed from the board because their term limits had expired. Ms. Thomas further stated that the agency no longer utilizes credit cards.

On May 5, 1999, we submitted our findings to the Office of the District Attorney General, Twentieth Judicial District (Nashville); and the Office of the State Attorney General.

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"Audit Highlights" is a summary of the special report. To obtain the complete special report, please contact

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
(615) 741-3697

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**Project Return, Incorporated  
Improper Use of Agency Credit Cards for Personal Use  
July 1999**

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**Project Return, Incorporated**  
**Improper Use of Agency Credit Cards for Personal Charges**  
**July 1999**

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**INTRODUCTION**

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**ORIGIN OF REVIEW**

On June 29, 1998, the Division of State Audit was contacted by Ms. Linda Thomas, Executive Director, Project Return, Inc. (a nonprofit organization receiving state-appropriated funds), concerning the alleged misuse of agency credit cards by Ms. Jean Allbritton, the former executive director; Ms. Christine Hamilton, the former bookkeeper; and Mr. Walter Phillips, then a senior job development counselor. According to Ms. Thomas, when she became executive director of the agency in January 1998, she discovered that these three individuals had used agency credit cards (Visa and American Express) for personal expenses. She told Division of State Audit staff that these three individuals had made nominal monthly payments for their respective personal charges through payroll deductions but still owed an outstanding aggregate balance of approximately \$80,000.

Ms. Thomas stated that the agency's board of directors had apparently been aware of and approved the spending practice expecting the three individuals to reimburse the agency for the personal charges. However, she stated that in her opinion the arrangement essentially authorized interest-free loans to agency employees from a nonprofit organization, a practice prohibited by *Tennessee Code Annotated*, Section 48-58-303. Ms. Thomas also voiced her concern that the outstanding balances would not be repaid because Ms. Allbritton and Ms. Hamilton were no longer employed by the agency.

**OBJECTIVES OF THE REVIEW**

The objectives of the review were

- to determine the nature and extent of any impropriety relating to the use of agency credit cards for personal expenses;
- to examine the agency's internal controls over the use of agency credit cards and the recording of personal credit card charges;
- to report our findings to the Tennessee General Assembly for its consideration regarding future appropriations to the agency; and

- to report our findings to the Office of the State Attorney General and the appropriate Office of the District Attorney General.

## **SCOPE OF THE REVIEW**

Our review included interviews with relevant former and current Project Return staff. We interviewed Ms. Allbritton in the presence of her attorney on December 1, 1998, and January 28, 1999. We interviewed Ms. Hamilton on November 19, 1998, on December 28, 1998 in the presence of her attorney, and again on June 7, 1999. We interviewed Mr. Phillips on November 17, 1998. We also interviewed Mr. Terry Panter, an auditor with Marlin & Edmondson, CPAs, who conducted a financial audit of the agency for fiscal years 1994-1995, 1995-1996, and 1996-1997.

We reviewed promissory notes dated September 21, 1997, and copies of related internal memoranda contained in agency files regarding personal credit card charges. We also reviewed available board of director's meeting minutes from 1988 to 1998.

We analyzed Project Return's American Express statements from the time the accounts were established in March 1992 to the time the accounts were closed in July 1997 and examined Visa statements from the time the accounts were established in June 1990 to the time the last account was closed in May 1998. We prepared schedules of Ms. Allbritton's, Ms. Hamilton's, and Mr. Phillips' personal Visa and American Express charges that the agency paid. We then reviewed agency biweekly payroll check stubs, monthly check registers, and other documentation regarding forms of payment to the agency (personal checks) and prepared a schedule of payments the three individuals made to offset their personal credit card charges.

## **BACKGROUND**

### Project Return Mission

According to Project Return literature, the agency is a private, nonprofit organization providing employment and rehabilitative assistance to ex-offenders and their families by referring them to employment sources, facilitating their access to basic education and vocational training, and educating the public on criminal justice issues.

### State Appropriations

Mr. Fred Hix, Department of Correction Fiscal Director, stated that sometime in the early 1990's the agency began receiving a \$50,000 annual direct appropriation from the General Assembly. Mr. Hix told us that in fiscal year 1994, the annual appropriation was increased to \$200,000. According to Section 7, Item 2, Chapter 1085 of the Public Acts of the 96th General Assembly—1990 Session, from an appropriation to the Department of Correction, the department

was authorized to grant up to \$50,000 to Project Return. The Public Act does not contain language regarding the use of the appropriated funds. The Public Acts of the 97th and 98th General Assembly (1991 and 1992 Sessions) include the same appropriation.

During the 1993 Session of the 98th General Assembly, an additional \$150,000 was appropriated to Project Return. The total appropriation was \$200,000 (including the original \$50,000 appropriation). According to Section 12, Item 241, Chapter 535 of the Public Acts of the 98th General Assembly–1993 Session, the additional \$150,000 appropriation was for “support, operational expenses for providing job training, job placement, counseling, and other support services for ex-offenders and their family members.” According to the Public Acts, the \$50,000 and \$150,000 state appropriations were provided to Project Return each fiscal year from 1994 through 1999. Information in the State Accounting and Reporting System (STARS) confirms that since the original appropriation in July 1990, funds totaling \$1,350,000 have been provided to Project Return.

Mr. Hix stated that the Department of Correction simply acted as a “flow through” agent to facilitate the transfer of the funds to Project Return. Furthermore, Mr. Hix said that the appropriation was not based on any performance criteria and that the use of the funds was not reviewed by the Department of Correction or any other state agency.

According to Project Return income projections for the period July 1, 1997, to June 30, 1998, funds totaling \$200,000 were expected from the annual state appropriation, \$30,500 was expected from United Way, \$5,000 was expected from other contributions, and \$1,500 was expected from interest. Total estimated income was \$237,000.

According to Project Return expense projections for the same period, funds totaling \$155,940 (75%) were budgeted for employee payroll and benefits; \$39,600 (20%), for rent, telephone service, utilities and fire/theft insurance; and \$11,140 (5%), for other expenses. Total estimated expenses were \$206,680.

#### Review of Personal Credit Card Charges by a Public Accounting Firm

A preliminary summary of the review conducted by the accounting firm of Marlin & Edmondson, CPAs, lists outstanding American Express and Visa personal charges prior to June 30, 1994, and other personal credit card charges less payments for the period July 1994 through June 1997. The summary, prepared by Mr. Terry Panter, the Marlin & Edmondson auditor conducting the review, lists outstanding personal credit card charge balances as follows: Ms. Allbritton, \$31,292.98; Ms. Hamilton, \$23,421.93; and Mr. Phillips, \$13,158.49. Outstanding personal credit card charges totaled \$67,873.40.

According to Mr. Panter, he did not analyze the credit card statements to determine personal charges and calculate the outstanding balances. Instead, he based his determination of personal credit card charges on monthly accounts receivable the agency bookkeeper, Ms. Hamilton, had established on behalf of these three individuals. Mr. Panter expressed little

confidence in the accuracy of the information used in his analysis, however, because limited supporting documentation existed for employee credit card receivables. For instance, some receivable amounts were supported only by a handwritten dollar figure on a piece of paper while other receivable amounts were simply supported by notations on the credit card statements. He stated that that his review was confined to the amounts posted to the general ledger. Marlin & Edmondson concluded the audit of the agency for fiscal years 1995, 1996, and 1997 and released an audit report disclaiming an opinion on the financial position of the agency because “we were unable to satisfy ourselves concerning the amount of receivables from employees.”

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## **DETAILS OF THE REVIEW**

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### **I. PERSONAL USE OF AGENCY CREDIT CARDS**

#### Methodology

To determine the amount of personal credit card charges made by Ms. Allbritton, Ms. Hamilton, and Mr. Phillips, we reviewed Project Return’s American Express and Visa statements from the time the accounts were established to the time the accounts were closed. Where possible, we reviewed the original statements Project Return had maintained. However, in July 1996, SunTrust Visa (the financial institution issuing the Visa card) began sending the agency’s statements to the homes of Ms. Allbritton and Ms. Hamilton instead of directly to the agency. As a result, most of the Visa statements dated after July 1996 were not available to the agency. Mr. Phillips apparently did not use the agency’s Visa card after January 1996. For Visa account activity after July 1996, we reviewed copies of the statements SunTrust Visa officials provided to us. Also, agency staff could not locate two American Express statements. American Express officials provided the agency copies of these statements. The agency provided those two statements to us.

According to Ms. Allbritton, Ms. Hamilton, and Mr. Phillips, monthly personal charges were distinguished from agency charges by the individual who incurred the charges. They all stated that they reviewed the credit card statements monthly, either initialed or highlighted personal charges, and provided the statements to Ms. Hamilton. According to Ms. Hamilton, she would record each employee’s monthly personal charges on a “voucher” form and attach it to the statement. Ms. Hamilton stated that she would then enter the information on the voucher into the agency’s accounting program to establish an employee account receivable. However, vouchers were not maintained with all credit card statements. The missing forms were never completed, lost, or deliberately removed from the agency’s files. In those instances, we reviewed notations Ms. Allbritton, Ms. Hamilton, and Mr. Phillips had made on the credit card statements to identify charges they considered personal. When personal charges were neither recorded on a voucher nor noted on the statement, we considered all the monthly charges to be personal until the individual could review the actual statement and identify personal charges.

We then prepared a schedule of the personal Visa and American Express charges made by Ms. Allbritton, Ms. Hamilton, and Mr. Phillips and paid by the agency. We determined that Project Return had paid personal credit card charges in the following amounts: Ms. Allbritton, \$37,996.21; Ms. Hamilton, \$30,049.16; and Mr. Phillips \$18,010.26. The grand total was \$86,055.63. (See Exhibit 1.)

After reviewing agency biweekly payroll check stubs, monthly check registers, and documentation regarding other forms of payment to the agency (personal checks), we prepared a schedule of the payroll deductions the three individuals made and personal checks Ms. Hamilton wrote to the agency to offset personal credit card charges. We determined that the following payroll deductions were made to offset personal credit charges: Ms. Allbritton, \$8,600; Ms. Hamilton, \$5,894.37 (including three personal checks to the agency totaling \$350); and Mr. Phillips, \$5,760. Ms. Allbritton, Ms. Hamilton, and Mr. Phillips were given an opportunity to provide us evidence of any other payments they had made to the agency to reduce their outstanding personal charge balance, but they did not provide any additional documentation.

Our review determined that Ms. Allbritton's outstanding balance of personal American Express charges totaled \$17,383.50 and personal Visa charges totaled \$12,012.71 for a grand total of \$29,396.21. Ms. Hamilton's outstanding balance of personal American Express charges totaled \$21,700.44 and personal Visa charges totaled \$2,454.35 for a grand total of \$24,154.79. Mr. Phillips' outstanding balance of personal American Express charges totaled \$11,425.82 and personal Visa charges totaled \$824.44 for a grand total of \$12,250.26. The outstanding balance of personal credit card charges for all three individuals totaled \$65,801.26. (See Exhibit 1.)

These balances did not reflect any company imposed late fees or interest charges. We have imputed no additional interest on these balances.

#### Jean Allbritton

We determined that the agency paid \$23,633.50 of Ms. Allbritton's personal American Express charges. This total, reduced by payroll deductions of \$6,250.00, leaves Ms. Allbritton with an outstanding balance of \$17,383.50 for her personal American Express charges. We also determined that the agency paid \$14,362.71 of Ms. Allbritton's personal Visa charges. This total, reduced by payroll deductions of \$2,350.00, leaves Ms. Allbritton with an outstanding balance of \$12,012.71 for her personal Visa charges. The grand total of Ms. Allbritton's outstanding personal credit card charges is \$29,396.21.

During a December 1, 1998, interview, Ms. Allbritton acknowledged that Project Return's board of directors never explicitly authorized her to use the agency's credit cards for personal expenditures. However, Ms. Allbritton stated that on her first day as the Project Return executive director (September 14, 1993), Ms. Hamilton, the agency's bookkeeper, instructed her on agency operations and informed her that making personal charges with agency credit cards was permissible. Ms. Allbritton said that she thought Ms. Hamilton's instruction were sanctioned by

the board of directors because she heard Ms. Romelia Wallace, the board chairperson at the time, and Mr. George Cate, a board member at the time, tell Ms. Hamilton to familiarize Ms. Allbritton with agency practices and operations. Additionally, Ms. Allbritton stated that she considered the practice of using the agency credit card for personal expenses as having the board's approval because the practice began prior to her employment with the agency and was discussed by the board in several board meetings she attended. She said that during these meetings, the board debated the necessity of the practice but always postponed making a final decision. Ms. Allbritton stated that at no time was she told by board members or staff that the practice was prohibited. A summary of our review of the board of directors' meeting minutes is presented below in Section IV of this report.

Ms. Allbritton stated that sometime in early 1994, she was informed by Mr. William Garvin, an accountant contracted by the agency to conduct monthly reviews of the agency's accounts, that personal charge balances had accumulated and that these charges should be paid back to the agency in full. She stated that after she discussed the matter with Mr. Garvin, she informed Mr. Cate, a board member, of the accumulated balances. According to Ms. Allbritton, Mr. Cate asked her what she intended to do about the situation. Ms. Allbritton stated that she informed Mr. Cate that she would prepare and disseminate a memorandum to document each employee's responsibility to repay the agency for the charges. (See Exhibit 2.) Ms. Allbritton said that Mr. Cate told her that the preparation of the memorandum was sufficient to resolve the matter. She further stated that Mr. Cate did not indicate to her that the practice of using agency credit cards for personal use was improper or should be stopped.

According to memoranda dated February 3, 1994, from Ms. Hamilton to herself, Ms. Allbritton, and Mr. Phillips, any personal charges made with the card must be paid in full by the individual staff person. The memoranda noted that Ms. Hamilton had an outstanding balance of \$1,494.43 with a monthly payroll deduction of \$100; that Ms. Allbritton had an outstanding balance of \$2,737.73 with a monthly payroll deduction of \$100; and that Mr. Phillips had an outstanding balance of \$1,220.89 with a monthly payroll deduction of \$100. The total outstanding balance noted was \$5,453.05. The total monthly payroll deduction noted was \$300.

Ms. Allbritton stated that her intent in preparing the memorandum was to communicate that any personal charges made with an agency credit card must be paid in full before terminating employment with the agency, not monthly. She added that she knew at all times she was responsible for repaying the agency for her personal charges and intended to do so. When asked to explain why she had not made any payments to the agency since her resignation in December 1997, Ms. Allbritton stated that Project Return officials had not provided her with the amount of her outstanding balance.

Ms. Allbritton expressed her desire to repay the outstanding balance of personal credit card charges by setting up a payment plan to retire the debt within a year of notification. Under such a payment plan, Ms. Allbritton would have to pay \$2,449.68 per month to retire the debt within the one-year period presuming she would pay no interest on the outstanding balance.

### Christine Hamilton

We determined that the agency paid \$25,955.44 of Ms. Hamilton's personal American Express charges. The total amount of Ms. Hamilton's personal American Express charges Project Return paid, \$25,955.44, reduced by payroll deductions of \$4,255.00, leaves an outstanding balance of \$21,700.44.

We also determined that the agency paid \$4,093.72 of Ms. Hamilton's personal Visa charges. Payroll deductions of \$1,289.37 and three payments to the agency by personal checks totaling \$350.00 reduced Ms. Hamilton's outstanding balance of personal Visa charges to \$2,454.35.

The grand total of Ms. Hamilton's outstanding personal credit card charges is \$24,154.79.

During a December 28, 1998 interview, Ms. Hamilton acknowledged using Project Return's American Express and Visa credit cards for personal expenses while employed at the agency. She said that she did not consider personal use of the cards inappropriate because the practice was common before her employment with the agency began in March 1991. She stated that the agency's executive director at the time of her employment, Mr. John Fair, used the agency credit card for personal expenses and repaid the agency through payroll deductions. Ms. Hamilton admitted, however, that she routinely used the cards to make personal charges with the knowledge that she could not afford to reimburse the agency in full each month.

Regarding the February 1994 memorandum cited above, Ms. Hamilton stated that she interpreted the memorandum as requiring full reimbursement of monthly personal charges each month. However, she stated that she disregarded the directive because she wanted clothing and personal items she could not otherwise afford because of personal financial problems. Ms. Hamilton said that she did not consider her continued charges to be improper because she always intended to repay her balance and because her superior, Ms. Allbritton, knew her personal charge balance was accumulating and could have refused to sign agency checks paying the credit card charges, but did not.

In July 1996, Visa began mailing statements to the home addresses of Ms. Allbritton and Ms. Hamilton instead of to the offices of Project Return. When questioned, Ms. Hamilton could not recall who suggested or made the billing address change. She stated that the change could not have been made without Ms. Allbritton's knowledge and approval. Ms. Allbritton also told us that she could not recall who suggested or made the billing address change. Ms. Allbritton stated that she did not consider the address change inappropriate because she felt it allowed her and Ms. Hamilton to personally pay their Visa credit card balances directly instead of reimbursing the agency for the personal charges. Although Project Return remained ultimately liable for all credit card charges, we found no evidence that the agency paid personal charges incurred by Ms. Allbritton or Ms. Hamilton with the agency's Visa cards after July 1996. However, the fact that agency credit card bills were sent to staff's home addresses is not consistent with proper fiscal practice and calls into question the agency's need for these cards. It should also be noted

that after July 1996, the agency continued paying Ms. Allbritton's and Ms. Hamilton's personal American Express charges.

Ms. Hamilton stopped entering payroll deductions designed to reimburse the agency for Ms. Allbritton's and Mr. Phillips' personal charges from February 1996 until August 1997, even though their personal use of agency credit cards continued. She also stopped deducting amounts from her own paycheck toward her own American Express personal charge balance from November 1995 to January 1997 and her Visa personal charge balance from November 1996 until June 1998. During this time, Ms. Hamilton continued to use the agency's American Express and Visa cards for personal expenses.

When questioned on December 28, 1998, Ms. Hamilton explained that she unilaterally decided to stop payroll deductions because "everyone in the agency was suffering from financial problems" during this period. She said that Ms. Allbritton was aware that payroll deductions were not being made and could have reinstituted the deductions at any time. Ms. Allbritton stated that she did not instruct Ms. Hamilton to stop making payroll deductions and did not know of the situation until the end of 1996 while reviewing her personal tax documents. She stated that once she became aware that the deductions had been halted, she instructed Ms. Hamilton to continue monthly payroll deductions.

Ms. Hamilton expressed her desire to repay the outstanding balance of personal credit card charges by setting up a payment plan to retire the debt within two years of notification. Under such a payment plan, Ms. Hamilton would have to pay \$1,006.45 per month to retire the debt within the two-year period presuming she would pay no interest on the outstanding balance.

It should be noted that Ms. Hamilton's personal use of Project Return's Visa card did not end when her employment was terminated in March 1998. According to Visa statements for the period following her termination date, Ms. Hamilton made new personal charges totaling \$444.77 from March 1998 to May 1998. Project Return did not pay any of these charges, but the agency remained liable for all charges incurred with its credit cards. When questioned, Ms. Hamilton said that she did not recall using the agency's Visa card after her termination. According to the December 25, 1998, Visa statement, the outstanding balance was \$384.99. According to Ms. Hamilton she made a final payment of \$113.55 on May 27, 1999, to close the Visa account. SuntrustBank officials confirmed that the account balance had been paid and that the account was closed.

### Walter Phillips

Our review of Mr. Phillips' use of the agency's American Express card revealed personal charges of \$15,360.82. This total includes the entire amount of monthly charges on the November 1996 (\$1,256.23), January 1997 (\$577.84), and May 1997 (\$552.20) American Express statements for which no documentation could be located that distinguished personal charges from agency charges. During a November 17, 1998, interview, Mr. Phillips acknowledged that

all charges made during these three months were personal in nature. Consequently, Mr. Phillips' personal charges of \$15,360.82, offset by payroll deductions of \$3,935, leaves an outstanding balance of personal American Express charges of \$11,425.82.

Our review of Mr. Phillips' use of the agency's Visa card revealed personal charges of \$2,649.44. Payroll deductions of \$1,825.00 reduced Mr. Phillips' outstanding balance of Visa personal charges to \$824.44.

The grand total of Mr. Phillips' outstanding personal credit card charges is \$12,250.26.

After reviewing credit card statements and schedules prepared by Division of State Audit staff listing personal charges, Mr. Phillips confirmed his outstanding personal charge balance totaled \$12,250.26 but expressed surprise over the extent of his personal charges. He defended his accrual of this balance, however, by explaining that he negligently relied on Christine Hamilton to track his personal charges, to set up payroll deductions accordingly, and to warn him of any problems with his use of the cards. Mr. Phillips did acknowledge being aware that his payroll deductions had stopped altogether from February 1996 to August 1997, explaining that he was suffering from personal financial difficulties at the time, and he presumed Ms. Hamilton was simply providing him with a temporary reprieve from payments. He apologized for not monitoring the situation more closely and stressed that he always intended to reimburse the agency for the entire outstanding balance of his personal charges, \$12,250.26.

Mr. Phillips stated that he wished to set up a repayment plan whereby he could retire his debt at a rate of at least \$50 per month. At the rate of \$50 per month, starting in April 1999, it would take Mr. Phillips until August 2019 (20 years and five months) to repay the \$12,250.26 presuming he would pay no interest on the outstanding balance.

### Other Employees

While reviewing the personal use of agency credit cards by Ms. Allbritton, Ms. Hamilton and Mr. Phillips, we discovered that other former employees of the agency also used agency cards for personal expenditures. According to agency records and confirmed by our review of agency credit card statements, Ms. Jacqueline Suggs, executive director from July 1990 to January 1991, made \$1,480.60 in personal charges on the agency's Visa credit card. Agency payroll records show that Ms. Suggs reimbursed the agency for the entire amount (\$1,480.60).

According to agency records and confirmed by our review of agency credit card statements, Mr. John Fair, executive director from February 1991 to September 1993, made \$4,674.04 in personal charges on the agency's Visa credit card. Agency payroll records show Mr. Fair repaid \$4,868.93 (including \$933.48 noted as being deducted from Mr. Fair's final paycheck on April 14, 1993) resulting in an overpayment to the agency totaling \$194.89. In an April 14, 1999, interview, Mr. Fair stated that he had requested the agency bookkeeper, Ms. Hamilton, to deduct the amount he owed the agency from his final paycheck. Mr. Fair stated that he did not specifically recall how much he owed the agency at that time but relied on Ms. Hamilton to make the appropriate payroll deduction.

Ms. Suggs and Mr. Fair both acknowledged using the agency American Express card for personal expenses but stated that all personal charges were reimbursed to the agency before they terminated employment with the agency. They both stated that the board of directors was aware of and approved their personal use of agency credit. Ms. Suggs told us that she paid all her personal charges each month through payroll deductions. Mr. Fair stated that he either paid all his personal charges each month through payroll deductions or personal check or made arrangements to pay his personal charges through payroll deductions within three to six months of the charges.

Mr. James Hooper, an agency job development counselor since February 1991, also had access to an agency Visa card. However, according to agency records and confirmed by our review of agency credit card statements, Mr. Hooper did not make personal charges with the Visa card.

## **II. REVIEW OF PROMISSORY NOTES**

Promissory notes and accompanying memoranda dated September 21, 1997, were contained in the agency's AMEX files of Ms. Allbritton, Ms. Hamilton, and Mr. Phillips. (See Exhibit 3.) According to Ms. Allbritton, before leaving the agency in December 1997, she prepared the promissory notes for herself, Ms. Hamilton, and Mr. Walter Phillips to document the amount of personal charges each owed, to document their intent to repay the agency, and to document her commitment to "leave Project Return in good structure and order." Ms. Allbritton signed her promissory note on September 21, 1997, with an accompanying memorandum reciting her balance of personal American Express charges as \$7,878.02. On the same day, Ms. Hamilton signed her note and an accompanying memorandum reciting her balance of personal American Express card charges as \$9,251.03. Mr. Phillips signed a memorandum reciting his current balance of personal American Express charges as \$4,445.60 on the same day. The accompanying promissory note in Mr. Phillips' file was unsigned.

Our review determined that at the time Ms. Allbritton, Ms. Hamilton, and Mr. Phillips signed these documents, their balances of personal charges were significantly higher than the amounts indicated. (See Exhibit 4.) Ms. Allbritton's balance of personal American Express charges was determined to be \$20,639.20 on September 21, 1997, more than twice the amount indicated in her memorandum and promissory note. Ms. Hamilton's balance of personal American Express charges was determined to be \$23,944.07 on September 21, 1997, more than twice the amount she indicated in her memorandum and promissory note. Mr. Phillips' balance of personal American Express charges was determined to be \$13,675.32 on September 21, 1997, more than three times the amount indicated in his memorandum and promissory note.

According to Ms. Hamilton, she calculated the amounts for each promissory note based on the information contained in the agency's computerized accounting system. It should be noted that Ms. Hamilton was responsible for entering this information into the system. She stated that to her knowledge, the amounts were accurately presented.

In addition, each note stated that should the named individual not complete payment of personal credit card charges at termination of employment, he or she agreed to pay the remaining balance within one year of termination. In spite of this directive, neither Ms. Allbritton nor Mr. Phillips made any payment after resigning from the agency. Ms. Hamilton has made three payments totaling \$350.00 since her termination from the agency. All three based their failure to make payments toward their outstanding balances on the agency's inability to provide them with an accurate balance due. It should be noted, however, that the calculation of an accurate balance was made difficult by the poor recordkeeping of Ms. Allbritton, Ms. Hamilton, and Mr. Phillips.

### **III. GENERAL LEDGER ANALYSIS**

We analyzed the agency's general ledger to determine any pattern of intentional underreporting of employee receivables. We compared employee receivables posted to the agency's general ledger between July 1994 and July 1997 with personal charges made by Ms. Allbritton, Ms. Hamilton, and Mr. Phillips and paid by the agency. Our general ledger review was limited to this three-year period because agency staff could not locate general ledger records prior to and immediately after this period. Of the \$71,451.78 in personal American Express and Visa charges that the agency paid during this period for these three employees, only \$55,697.03 was entered as receivables on the general ledger, a difference of \$15,754.75. More specifically, personal charges on the agency's American Express and Visa card in the amount of \$31,595.33 were attributed to Ms. Jean Allbritton during this period, but only \$28,778.47 appeared on the general ledger as employee receivables. Personal charges on the agency's American Express and Visa cards in the amount of \$26,010.99 were attributed to Ms. Christine Hamilton during this period, but only \$16,039.45 appeared as receivables on the general ledger. Personal charges on the agency's American Express and Visa cards in the amount of \$13,845.46 were attributed to Mr. Walter Phillips, but only \$10,879.11 appeared as receivables on the agency's general ledger.

Ms. Allbritton and Ms. Hamilton stated that to their knowledge all employee receivables were entered into the agency's general ledger. They both stated that no intentional omission of employee receivables was made and that they at no time attempted to understate the employee receivable amounts.

### **IV. BOARD OF DIRECTORS' KNOWLEDGE**

According to board of directors' meeting minutes, the board apparently first addressed personal use of agency credit cards on October 4, 1994. The minutes of this board meeting state that one member, Mr. Rusty Lawrence, questioned the reason for having agency credit cards at all. According to the minutes, the credit cards were used for business-related expenses in lieu of writing checks. The minutes state that Mr. Lawrence responded by stating that the board had decided not to use a credit card system but instead had decided to use a checking system to ensure "a tight accounting system." He further questioned using the agency credit cards for personal reasons and using

agency time to account for personal expenses. According to the minutes, Ms. Allbritton responded that the same system was in place when she worked for the federal and state government and at the National Urban League. No more specific rationale was given for allowing personal expenditures on agency credit cards. The minutes state that it was recommended that a committee be established to look at the system for 30 to 60 days.

According to the minutes of a January 9, 1995, board meeting, the use of agency credit cards for personal expenses was again discussed. According to the minutes, the board members after a lengthy discussion apparently could not agree on the propriety of allowing personal expenditures on the cards and tabled the issue for future consideration.

According to a June 4, 1996, letter to Mr. Ramsey Wall, then chairman of the board, Mr. Lawrence resigned from the board because he believed the agency lacked fiscal and program accountability. In his letter, Mr. Lawrence said that he discovered staff had made personal use of agency credit cards by accident when he asked what a particular line item in the budget included during a board a meeting. He added, "from discussions with several other directors of nonprofits, the use of agency credit cards for staff's personal purchases is unheard of for credible agencies."

According to the minutes of a December 3, 1997, board meeting, the balance of unpaid personal charges on the agency's American Express account was reported as \$28,539.42. The minutes state that when the board learned of this balance, a "heated discussion ensued." The minutes continue by stating that Ms. Allbritton assured the board that personal expenses were being reimbursed through payroll deduction. The minutes state that Ms. Monica Edwards, then a board member, added that involved employees had signed contracts specifying repayment terms.

Ms. Linda Thomas, the agency's current executive director, reported that the issue of personal use of agency credit cards was also discussed without resolution at other board meetings after she became executive director in January 1998. According to Ms. Thomas, the use of agency credit cards for personal expenses was apparently allowed to continue until the cards were canceled (the American Express card in July 1997 and the Visa cards in September 1996). It should be noted that although Ms. Thomas believed the agency Visa account had been closed in September 1996, activity continued through February 1998 for Ms. Allbritton's Visa account and through May 1998 for Ms. Hamilton's Visa account. Ms. Thomas did not know the circumstances surrounding the decision to cancel the cards and did not know why the accounts associated with Ms. Allbritton and Ms. Hamilton remained open after September 1996. She stated that several minutes of board meetings held during this period were missing. According to Ms. Thomas, the board meeting minutes had not been prepared, had not been filed and lost, or had been removed from the files.

## **V. LACK OF INTERNAL CONTROLS OVER AGENCY FUNDS**

The use of agency credit cards for personal expenses is an obvious abuse of agency funds. This practice, perpetuated by key agency staff, was not subject to any internal controls. Relying on agency staff who used the credit cards to determine which charges were personal and which were incurred on behalf of the agency provided no safeguards against misuse.

This determination was not reviewed by anyone else at the agency and was not always supported with receipts for agency purchases. In allowing this practice, the board of directors failed to ensure state-appropriated funds were used for intended purposes.

Ms. Hamilton acknowledged that she was not qualified to handle accounting functions for the agency. She stated that she had no formal accounting training and no experience with basic bookkeeping functions. Yet she undertook to engage in accounting for these improper actions. Although Ms. Hamilton may have lacked formal training and experience, the calculation and classification errors identified in the agency's accounting records were not due to the sophistication of the accounting system, and it appears that she appropriately accounted for all other transactions of the agency. Ms. Allbritton, as the agency's executive director, should have properly supervised Ms. Hamilton's activities and should have ensured that the primary fiscal agent, Ms. Hamilton, was competent to perform basic bookkeeping functions.

Financial responsibilities were not properly segregated. Ms. Hamilton was responsible for receiving credit card bills, posting charges to the general ledger, preparing checks to pay the credit card bills, reconciling the agency's checking accounts, and entering employee payroll deductions. This lack of segregation of duties is especially alarming when combined with the fact that Ms. Hamilton had her own Project Return American Express and Visa cards.

#### Corrective Action Taken by the Agency

According to Ms. Thomas and as reflected in the board of directors' meeting minutes, on October 20, 1998, the board chairperson and co-secretaries were removed as board officers. Following this decision, the board members active during the time agency staff used credit cards for personal charges resigned or were removed from the board because their term limits had expired.

Ms. Thomas further stated that the agency no longer utilizes credit cards.

#### **VI. PAYMENTS MADE AFTER EMPLOYMENT TERMINATION**

Ms. Allbritton resigned as Project Return's executive director effective December 1997. According to Linda Thomas, Ms. Allbritton has made no payments toward her outstanding balance since her resignation.

Ms. Thomas said that Ms. Hamilton's employment with the agency was terminated effective March 1998 for reasons unrelated to her personal use of the agency credit cards. Ms. Hamilton has made three payments totaling \$350 toward her outstanding balance (\$100 on June 4, 1998; \$150 on July 26, 1998; and \$100 on September 17, 1998) since her termination. Mr. Phillips resigned from the agency effective September 1, 1998, and, according to Ms. Thomas, has made no payments toward his outstanding balance since that time.

## **VII. OTHER ISSUES**

During our review of all the canceled checks found in Project Return's files, we noticed 24 agency checks totaling \$6,192.41 signed by and made payable to Ms. Allbritton. Some of these checks were supported by invoices from the snack business operated by Ms. Allbritton's husband, Mr. Dallas Allbritton, and to Amway, a business Ms. Allbritton was involved with while working at the agency. Fourteen checks totaling \$4,583.17 were not supported by any documentation or explanation of the payment to Ms. Allbritton. Because Ms. Allbritton's signature was the only one affixed to these checks, it is not clear if the board of directors knew about or approved these expenditures. The failure to require two authorizing signatures on checks or to prohibit checks signed by and payable to the same person constitutes a significant internal control weakness.

Ms. Allbritton stated that agency purchases from her Amway business and her husband's snack business were legitimate and that needed goods and supplies were provided to the agency at reduced prices. She stated that the other checks were written to reimburse her for various expenses she had incurred on behalf of the agency. According to Ms. Allbritton, these expenses included office supplies, travel, board gifts, and a bonus authorized by the board of directors. She stated that supporting documentation should have been with each check request.

Provided Ms. Allbritton was truthful in her explanation, her actions presented an appearance of a conflict of interest that should have been avoided.

## **VIII. REFERRAL TO STATE ATTORNEY GENERAL AND DISTRICT ATTORNEY GENERAL**

On May 5 1999, we submitted our findings pertaining to these matters to the Office of the State Attorney General and the Office of the District Attorney General, Twentieth Judicial District (Nashville).

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## **RECOMMENDATIONS**

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Our review resulted in the following recommendations:

- The current Project Return board of directors should review this report and take all available actions to recover these misspent funds, including interest for funds that were not available to the agency, and to hold the responsible individuals personally liable. These actions would include seeking immediate restitution from Ms. Allbritton, Ms. Hamilton, and Mr. Phillips as well as from the board members who permitted these practices to occur. The current Project Return board of directors should also pursue all available criminal sanctions.

- The Project Return board of directors should develop and implement sound internal controls. These internal controls should address, but not be limited to, the following areas: Agency credit cards should never be used for personal expenses. Fiscal responsibilities should be properly segregated and monitored. The board chair should countersign agency checks made payable to an officer with signatory authority. Appropriately trained and educated fiscal staff should be hired to perform accounting functions.
- The Project Return board of directors should take all necessary measures to adequately monitor the actions of staff, particularly with regard to such financial abuses as noted in this report, and take immediate corrective action.
- The Project Return board of directors should take all necessary measures to ensure that the attitude displayed by board members and executive staff reflects an unequivocal commitment to integrity at all levels and no tolerance for the types of actions noted in this report.
- The Project Return executive director should ensure proper recording of all accounts receivable and their prompt repayment.

Exhibit 1  
Summary of Personal Credit Card Charges

**JEAN ALLBRITTON**

	Personal Charges Per Audit Review	Amount Paid by Employee	Outstanding Balance
American Express	\$23,633.50	\$6,250.00	\$17,383.50
Visa	\$14,362.71	\$2,350.00	\$12,012.71
TOTALS:	\$37,996.21	\$8,600.00	<b>\$29,396.21</b>

**CHRISTINE HAMILTON**

	Personal Charges Per Audit Review	Amount Paid by Employee	Outstanding Balance
American Express	\$25,955.44	\$4,255.00	\$21,700.44
Visa	\$4,093.72	\$1,639.37	\$2,454.35
TOTALS:	\$30,049.16	\$5,894.37	<b>\$24,154.79</b>

**WALTER PHILLIPS**

	Personal Charges Per Audit Review	Amount Paid by Employee	Outstanding Balance
American Express	\$15,360.82	\$3,935.00	\$11,425.82
Visa	\$2,649.44	\$1,825.00	\$824.44
TOTALS:	\$18,010.26	\$5,760.00	<b>\$12,250.26</b>
<i>GRAND TOTALS:</i>	<i>\$86,055.63</i>	<i>\$20,254.37</i>	<i>\$65,801.26</i>

**To:** Jean Wilson  
**From:** Christine Hamilton  
**Date:** February 3, 1994  
**RE:** American Express

In being advised by Mr. Garvin, Project Return, Inc.'s, CPA, the American Express card should be used for agency expenses. All agency expenses will be submitted monthly for payment. Any personal charges made with the American Express card, must be paid in full by the individual staff person. A personal check should be made payable to Project Return, Inc. or payments will be deducted from your payroll check should the prior method not be chosen.

If you have any questions or concerns, please let me know.

Thank you for your continue cooperation.

**Balance:** \$2,737.73

Presently, \$100.00 is being deducted per pay period.

To: Christine Hamilton  
From: Christine Hamilton  
Date: February 3, 1994  
RE: American Express

In being advised by Mr. Garvin, Project Return, Inc.'s, CPA, the American Express card should be used for agency expenses. All agency expenses will be submitted monthly for payment. Any personal charges made with the American Express card, must be paid in full by the individual staff person. A personal check should be made payable to Project Return, Inc. or payments will be deducted from your payroll check should the prior method not be chosen.

If you have any questions or concerns, please let me know.

Thank you for your continue cooperation.

Balance: \$1,494.43

Presently, \$100.00 is being deducted per pay period.

To: Walter Phillips  
From: Christine Hamilton  
Date: February 3, 1994  
RE: American Express

In being advised by Mr. Garvin, Project Return, Inc.'s, CPA, the American Express card should be used for agency expenses. All agency expenses will be submitted monthly for payment. Any personal charges made with the American Express card, must be paid in full by the individual staff person. A personal check should be made payable to Project Return, Inc. or payments will be deducted from your payroll check should the prior method not be chosen.

If you have any questions or concerns, please let me know.

Thank you for your continue cooperation.

Balance: \$1,220.89

Presently, \$100.00 is being deducted per pay period.

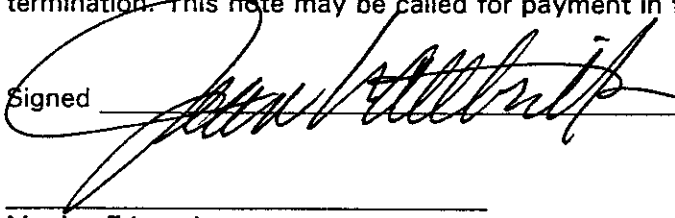
## Promissory Note

September 21, 1997

To the file of: Jean Allbuton

The above named individual understands the binding nature of the signed American Express Credit Card agreement on file. Should this individual not have completed payment at his/her termination of employment. He/she agrees to pay the remaining balance within one year of termination. This note may be called for payment in full should payments not be made.

Signed

 Date 9/21/97

\_\_\_\_\_  
Monica Edwards  
Co-Chairperson Personnel Committee  
Project Return, Inc. Board of Directors

**Project Return, Inc.  
1514 Church Street  
Nashville, Tn 37013  
615-327-9654**

EXHIBIT 3 (continued)

To: Jean Allbritton  
From: Christine Hamilton  
Date: September 21, 1997  
RE: American Express  
Personal Charges

Personal charges made with the American Express card, must be paid in full by the individual staff person. A personal check should be make payable to Project Return, Inc. or payments will be deducted form your payroll check should the prior method not be chosen.

If you have any questions or concerns, please let me know.

Thanks you for your continued cooperation.

Balance: \$7,878.02

\_\_\_\_\_ Amount is paid to the agency monthly.

\_\_\_\_\_  
Jean Allbritton

\_\_\_\_\_  
Date

## Promissory Note

EXHIBIT 3 (continued)

September 21, 1997

To the file of: Christine Hamilton

The above named individual understands the binding nature of the signed American Express Credit Card agreement on file. Should this individual not have completed payment at his/her termination of employment. He/she agrees to pay the remaining balance within one year of termination. This note may be called for payment in full should payments not be made.

Signed Christine Hamilton Date 9/21/97

\_\_\_\_\_  
Monica Edwards  
Co-Chairperson Personnel Committee  
Project Return, Inc. Board of Directors

**Project Return, Inc.  
1514 Church Street  
Nashville, Tn 37013  
615-327-9654**

EXHIBIT 3 (continued)

To: Christine Hamilton  
From: Christine Hamilton  
Date: September 21, 1997  
RE: American Express  
Personal Charges

Personal charges made with the American Express card, must be paid in full by the individual staff person. A personal check should be make payable to Project Return, Inc. or payments will be deducted form your payroll check should the prior method not be chosen.

If you have any questions or concerns, please let me know.

Thanks you for your continued cooperation.

Balance: \$9,251.03

\_\_\_\_\_ Amount is paid to the agency monthly.

*Christine Hamilton*

Christine Hamilton

\_\_\_\_\_ Date

## Promissory Note

September 21, 1997

To the file of: Walter Phillips

The above named individual understands the binding nature of the signed American Express Credit Card agreement on file. Should this individual not have completed payment at his/her termination of employment. He/she agrees to pay the remaining balance within one year of termination. This note may be called for payment in full should payments not be made.

Signed \_\_\_\_\_ Date \_\_\_\_\_

\_\_\_\_\_  
Monica Edwards  
Co-Chairperson Personnel Committee  
Project Return, Inc. Board of Directors

**Project Return, Inc.  
1514 Church Street  
Nashville, Tn 37013  
615-327-9654**

EXHIBIT 3 (continued)

To: Walter Phillips  
From: Christine Hamilton  
Date: September 21, 1997  
RE: American Express  
Personal Charges

Personal charges made with the American Express card, must be paid in full by the individual staff person. A personal check should be make payable to Project Return, Inc. or payments will be deducted form your payroll check should the prior method not be chosen.

If you have any questions or concerns, please let me know.

Thanks you for your continued cooperation.

Balance: \$4,445.60

\_\_\_\_\_ Amount is paid to the agency monthly.

Walter Phillips  
Walter Phillips

9/21/97  
Date

Exhibit 4  
Summary of September 21, 1997 Promissory Notes

	<u>Name</u>	<u>Promissory Note Amount</u>	<u>% of Actual Outstanding Balance</u>	<u>Actual Outstanding Balance</u>	<u>Difference</u>
1	Jean Allbritton	\$7,878.02	38.17%	\$20,639.20	\$12,761.18
2	Christine Hamilton	\$9,251.03	38.64%	\$23,944.07	\$14,693.04
3	Walter Phillips	\$4,445.60	32.51%	\$13,675.32	\$9,229.72